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RETHINKING THE STATE FOR SOCIAL DEVELOPMENT

Report prepared by the Secretariat*

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I. AN END OF CENTURY MARKED BY DISTURBING SOCIAL TRENDS

1. Mankind is approaching the end of the twentieth century with vastly increased scientific, technological and productive capacities. Simultaneous breakthroughs are occurring in numerous branches of knowledge, giving rise to new conceptual models for interpreting phenomena and a new wave of technologies based on a knowledge of infinite possibilities. Advances in such fields as telecommunications, microelectronics, biotechnology, the material sciences, machine tools, computer science and robotics, among others, are transforming our basic production patterns. Our potential for producing goods and services has expanded and multiplied rapidly. These changes have been accompanied by a revolution in expectations. Democratic systems under which people are able to elect their representatives are becoming more prevalent and there are widespread demands for increased participation. People expect to have a real and greater say in the decision-making process and there is a broad movement towards establishing new and more active forms of organization of civil society.

2. However, the tremendous potential of our productive capacities is not resulting in improvements in the difficult conditions under which large sectors of the world's population currently live. There is a huge gap between that potential and the realities of daily life. There is also a gap between the progress made towards democracy, towards the democratic citizenship that offers people the potential for participation, and the situation of social exclusion and degraded social citizenship that many of these same people face and that creates numerous barriers to meaningful participation. The social situation to which the historic World Summit for Social Development drew attention raises profound questions about the future.

3. According to World Bank data, 1.3 billion of the world's population live on less than a dollar a day and are thus in a situation of extreme poverty. Two fifths of the world's population lack adequate health services and electricity.[1] According to the United Nations Development Programme (UNDP), there has been a marked increase in the number of poor people whose income has actually declined. Between 1965 and 1980, this situation affected 200 million poor people; between 1980 and 1993, it affected 1 billion. Some 800 million people do not receive adequate food and nearly 500 million suffer from chronic malnutrition; 17 million people die each year from curable parasitic infections and diseases such as diarrhoea, malaria and tuberculosis.[2]

4. The unemployment figures which underpin these social difficulties reflect a widespread trend towards rising unemployment and a decline in the quality of the jobs available. The International Labour Organization (ILO) World employment 1995 report states that in 1995, 30 per cent of the global labour force was either unemployed or underemployed. This phenomenon of high unemployment rates is accompanied by a steady shift towards the so-called informal economy. Although heterogeneous, in general, the informal economy tends to consist of unstable employment offering no definite prospects, no social protection of any kind, low incomes, and productivity levels which are far lower than those in the formal economy because of resource, technology and credit limitations. In Latin America, for example, informal employment accounted for 40.2 per cent of the non-agricultural employed labour force in 1980. By 1995, the proportion had

increased to 55.7 per cent. The rate of open unemployment in the region was estimated at 16.2 per cent in 1996.[3] Data on the extent of unemployment must be taken together with indicators of the average duration of unemployment. As Robert Solow has noted, the length of unemployment, which also seems to be increasing, is very important. His analyses point to the high social cost of extended periods of unemployment and show that the experience of prolonged unemployment has many adverse effects on personality which are overlooked by conventional economic studies. Prolonged unemployment leads to, among other things, apathy, a serious loss of interest in socializing and a gradual withdrawal from the labour force.[4] Loss of self-esteem is a defining element.

5. Global poverty continues to affect mainly women and children. According to ILO data, women account for a disproportionately large number of the poor, the unemployed and the underemployed. Children are highly vulnerable to the effects of poverty and there is a noticeable gap between the advances made in modern medical technology and the rates of infant mortality in poor areas. A third of children in developing countries suffer from malnutrition. The infant mortality rate for children under five in these countries is 97 per thousand, almost six times greater than the rate in developed countries. According to data provided by the United Nations Children's Fund (UNICEF), 600,000 children die each year in Latin America and the Caribbean from preventable causes.[5] Forced by circumstances, children account for a growing proportion of the labour force in various countries and work under deplorable conditions of exploitation. The problem of street children has become more widespread in many cities and poor children have become a target of choice for drug traffickers.

6. The severe social tensions that have built up in all the areas discussed, and in others which have not been mentioned, provide a fertile breeding ground for processes that weaken the social fabric. These include the breakdown of the family and rising criminality. The institution of the family, which is central to most societies and the provider of moral standards, basic education, preventive health care, nurturing and role models, is being seriously undermined by social problems and is losing its male figures. At the same time, a marked increase in crime rates is being observed in some societies. The Economist magazine, for example, reports that almost all cities in Latin America are less safe today than they were 10 years ago.[6]

7. Together, the deficiencies described above are creating vicious circles of poverty. Nutritional deficiencies in early childhood, the absence of a stable family setting, limitations on attending and remaining in school, and marginalization from the labour market give rise to a situation of social exclusion which is self-perpetuating.

8. In the closest linkage with poverty and social exclusion, a marked increase in inequity and social polarization can be observed at the international level. UNDP figures show that over the past 30 years the income of the poorest 20 per cent of the world's people declined from 2 per cent to 1.45 per cent of global income, while the share of the richest 20 per cent rose from 70 per cent to 85 per cent of global wealth. The social gap doubled in size between 1960 and 1990. At the two extremes of this global income polarization, the assets of the world's 358 billionaires exceed the combined annual incomes of countries

with 45 per cent of the world's population - 2.3 billion people. In turn, inequalities in income and in ownership of assets result in glaring inequities in access to credit and have numerous repercussions in such crucial areas as access to and continuation in educational systems, the quality of the education received by poor people and the latter's potential for academic achievement.

9. These existing inequities are being compounded by the boom in communications, which has reached a peak with the development of computer networks offering massive potential for the dissemination and exchange of information. Broad sectors of the population may have no access to these developments, however, owing to the gaps that exist in other areas. Martin Hopenhayn speaks of the threat of the emergence of new forms of computer illiteracy for those who have no access to any form of information technology.

10. In drawing the world's attention to the gravity of the problem of inequity, the UNDP Administrator told the World Summit in Copenhagen that it was crucial that the problem be tackled in the coming decades. Likewise, the President of the World Bank has said that distributing the benefits of growth is one of the greatest challenges for global stability. Social injustice may destroy economic and political progress and we must learn more about the why and the how of income distribution.' Robert Solow points out that, in order to secure the population's commitment to development policies, there must be a perception of justice by all social groups, in the sense that each group must feel that it is receiving a fair share of the fruits of economic progress.' Acute poverty and extreme social polarization create a scenario which severely jeopardizes prospects for sustained economic growth and seriously affects democratic governance in the developing countries. Lack of progress in improving the precarious quality of daily life among broad sectors of the population leads to a significant loss of credibility on the part of democratic Governments, thereby diminishing their prospect for good governance.

11. How does one deal with this disturbing social situation? Is poverty inevitable, a kind of condition of nature? In many parts of the world, this is clearly not the case, since poverty exists alongside an abundance of mineral and agricultural wealth, energy sources and strategic raw materials. Is poverty an individual condition attributable to certain people's shortcomings? There is no empirical evidence to support this kind of reasoning either. A core document submitted to the World Summit in Copenhagen by a commission of eminent persons chaired by the former President of Chile, Patricio Aylwin, pointed out that, generally speaking, the poor are not responsible for their situation. Many of them are hard-working individuals who manage to overcome their poverty when they are given a little help or when the country's overall situation improves.

12. In view of the persistence and the exacerbation of the problem, new solutions are being sought and new lines of research and study are being pursued in this area, leading in turn to a radical rethinking of the role and structure of the State. We shall now examine these new directions in the debate, while later in our analysis we shall use them to discuss what role the State should play in the social sphere in the developing world. Having identified this role, we shall reflect on guidelines for redesigning institutions and the State in line with that role and on what kind of management would be best suited to ensuring that the State performs effectively in the social sphere, and we shall

conclude with a final note. In any event, the analysis will be exploratory and its main purpose will be to draw attention to the need to inject new ideas into the agenda for the discussion of these issues.

II. NEW DIRECTIONS IN THE DEBATE ON SOCIAL DEVELOPMENT

13. Shahid Javed Burki, a Vice-President of the World Bank, recently pointed out that the situation of the poorest 20 per cent of the world's population is not improving and that this is particularly true of two regions: Latin America and Africa.[11] The persistence and aggravation of social problems and the widespread demands for their solution, emanating principally from the World Summit for Social Development, have sparked a broad debate which is taking a fresh look at most of the basic premises of social action in recent decades. The new debate which arose from a feeling of powerlessness at the lack of answers and the limited results of models which, on paper, were supposed to provide effective solutions is challenging basic aspects of their validity and seeking alternative analytical models which might be more useful. Some of the basic elements being explored in a debate which now involves Governments, academic institutions, members of civil society, international cooperation and funding agencies and world public opinion are summarized below.

A. Questioning the "trickle-down" model

14. In recent decades, a number of popular approaches have offered an answer based essentially on "trickle-down" theory. The well-known basic assumptions of this theory are that making huge sacrifices in order to attain macroeconomic goals which involve economic and financial equilibria will bring about economic progress, and that this will ultimately "trickle down" to the entire population, including the poorest groups, lifting them out of their situation of dire poverty. There would be a difficult waiting period before this phase of delays and almost enforced accumulation finally produced a happy ending. As has happened so many times in the past, the facts on the ground have not matched the assumptions of the model. The road to development seems to be infinitely more complex according to, among others, the comprehensive research of the UNDP Human Development Reports, which cover almost all the developing countries and give a complete account of recent decades. The facts indicate that reality operates very differently from those assumptions. The evidence shows that, while it is essential for a country to achieve economic stability and financial equilibria and to increase its competitiveness and gross national product, this does not automatically "trickle down". On the contrary, it is perfectly possible for indicators to improve, while the situation of the most disadvantaged sectors continues to deteriorate or remains static. According to the World Bank Annual Report 1995, "Improving income distribution and alleviating poverty cannot be left to trickle down consequences of economic growth". The World Bank also maintains, in an analysis of the causes of the Mexican economic crisis, that "for many years, acceleration in growth was considered the main prescription for reducing inequalities and poverty. Increasingly, however, empirical evidence indicates that, although very important, higher growth is not enough".[12] In its Human Development Report 1996, UNDP warns that attention must be focused on the structure and quality of growth, since even when there is growth, it may be

accompanied by unemployment, marginalization, lack of participation, a weakening of national cultures or environmental degradation, rendering it "futureless".

15. The increasingly widespread perception of the inefficiency of the trickle-down model points to the fact that the relationship between the economic and social spheres is far more complex than the model assumed and that, like other models in the past, it has been demolished by the facts, making it necessary to find new approaches.

B. Revaluation of human and social capital

16. To a large extent, research and debate are engaged in an in-depth reassessment of the impact on development of forms of capital accumulation, which until now, have not been adequately evaluated. In addition to "traditional" capital - the natural capital of a society, consisting of its natural resources, and its man-made capital, consisting of what it has produced (infrastructure, business capital, financial capital, etc.) - a closer look should be taken at two other forms of capital: human capital and social capital. The first has to do with the quality of human resources, the second, with qualitative elements such as shared values, culture, the capacity to act synergetically and to generate networks and the level of consultation and dialogue within the society. In an analysis of the factors contributing to economic growth, a World Bank study on 192 countries concluded that no less than 64 per cent of growth can be attributed to human capital and social capital.[13]

17. Human capital formation involves systematic, ongoing investment in such areas as education, health and nutrition. As we approach the end of the century, education has become one of the most cost-effective investments. This has to do with the radical changes that are occurring in production structures, which are tending to emphasize knowledge as a building block of the new productive matrices. Pure knowledge is now the basis of high technology industries, and there is every indication that this trend will continue. Lester Thurow maintains that the twenty-first century will be a century of "brainpower" and that knowledge has become the only source of long-run sustainable competitive advantage.[14] Among other things, computers use virtually no natural resources and are based on knowledge. Accordingly, he says that the "rate of return for industries that invest in knowledge and skill today will [be] more than twice that of those that concentrate on plant and equipment". Robert Reich, former United States Secretary of Labour emphasizes the decisive impact of education, noting that the winners in this new globalized, volatile economy are those who can identify and resolve problems, handle and analyse symbols and create and manage information. He recommends that his own country, the United States of America, should invest in the education and training of its people by providing good public schools and excellent public universities and that they should be public in the truest sense of the word: accessible to all, supported by all.[15] Jacques Delors highlights the vital historical role of education in our time: "human progress is largely dependent on it. ... The idea is gaining ground that education is one of the most powerful tools with which to shape the future".[16] The education, science and technology budgets of economically and technologically advanced countries have increased dramatically. Japan has just approved a 50 per cent increase over its already high science and

technology budget of the past five years. In the next five-year period it will be $155 million. Government funding for science and technology in the year 2000 should be twice that in 1992. In the Republic of Korea, investment in education amounts to 10 per cent of the gross national product, well above that of the developing world. Since 1994, Israel has been carrying out a further reform of its already advanced educational system, which has meant a 33 per cent increase in real terms in the resources allocated to education. This will make it possible, inter alia, to bring teachers in all schools up to date with the latest advances in computer technology and to introduce those advances in all classrooms. High-technology private firms have significantly increased their staff training budgets, which in some cases now amount to nearly 10 per cent of total payroll.

18. Health spending, which is a cornerstone of human capital development, has proved extremely cost-effective. Activities promoted by the World Health Organization, the Pan-American Sanitary Bureau and UNICEF, for example, in the area of high-mortality diseases such as infant diarrhoea and cholera, have had a major impact in a short time with minimal investments. Combined efforts in the fields of health and education have tremendous potential. Expanding and improving education for girls from deprived areas is considered to be one of the most profitable end-of-century investments. According to World Bank estimates, providing three more years of basic schooling for these girls would reduce the infant mortality rate by 15 per thousand. These additional years would increase the girls' educational capital, enabling them to deal much more effectively with issues such as teenage pregnancy, family planning, prenatal care, neonatal care and nutrition management.

19. Social capital can, in turn, generate very high returns for economic progress and general well-being. The much-publicized study by Robert Putnam empirically confirms its strategic contribution to growth.[11] The author says that it is a public good: "one special feature of social capital, like trust, norms and networks, is that it is ordinarily a public good, unlike conventional capital, which is ordinarily a private good". A biased evaluation process occurs: "like all public goods, social capital tends to be undervalued and undersupplied by private agents". Underestimating it is a mistake, for such capital can have a decisive impact. Analysing the Italian experience, Putnam emphasizes the key role of social capital, identifying some of its practical effects: "in the civic regions of Italy, by contrast to Naples, social trust has long been a key ingredient in the ethos that has sustained economic dynamism and government performance. Cooperation is often required - between legislature and executive, between workers and managers, among political parties, between the government and private groups, among small firms and so on. Yet explicit "contracting" and "monitoring" in such cases is often costly or impossible, and third-party enforcement is impractical. Trust lubricates cooperation. The greater the level of trust within a community, the greater the likelihood of cooperation. And cooperation itself breeds trust. The steady accumulation of social capital is a crucial part of the story behind the virtuous circles of civic Italy".

20. Human capital and social capital have been rediscovered in recent years, and development cannot be seriously considered without taking into account their significant impact as its "levers".

C. Rethinking the concept of equity

21. Here again, the conventional models have clashed with historical facts, and their failure has generated broad new possibilities for research on the topic and for designing new models and testing new responses.

22. As Nancy Birdsall, David Rose and Richard Sabot have noted, the assumption that there is an inverse relationship between an increase in growth and a reduction in inequality has been a basic postulate of conventional economic theories about the nature of the development process.* For these theories to work, a high degree of inequity would be necessary in order to obtain cumulative benefits and promote growth. However, a rigorous econometric analysis of the experience of two regions of the world - South-East Asia and Latin America - in the past 30 years shows just the opposite. Birdsall, Ross and Sabot speculate as to why relatively low economic growth rates and a high degree of inequality are found in Latin America, compared to rapid growth and a low degree of inequality in East Asia. While in the countries of South-East Asia the active effort to reduce inequality has lowered its levels significantly, and in the Republic of Korea the distribution of national income between the top 20 per cent and the bottom 20 per cent is now 8 to 1, the situation in Latin America has become more polarized, with a gap of 26 to 1 in Brazil and growing disparities in Mexico and Argentina and the region in general. Among other things, vicious or virtuous circles can be seen - depending on whether equity is increasing or decreasing - between equity, education and growth. The above-mentioned study found that in the 1950s the rate of completion of primary school in Brazil was 60 per cent, much higher than that of the Republic of Korea, which was 35 per cent. In the three decades that followed, while inequity grew in Brazil, it decreased significantly in the Republic of Korea. This and other factors determined that the rate of primary school completion in Brazil dropped considerably, while in the Republic of Korea it rose to over 90 per cent. According to The Economist, the evolution of inequality in Brazil was of the following type:

Table 1

INCOME DISTRIBUTION: BRAZIL

	Percentage of national income	
	1970	1994
Richest 1% of population	8	15
Poorest 25% of population	16	12

Source: The Economist, 29 April 1995.

23. The application of the Gini coefficient, which measures degrees of inequality in income distribution in Latin America, Africa, South-East Asia and East Asia shows how the coefficient, which rises when inequality increases, reflects appreciable positive differences in the last-mentioned two regions, which in turn have grown at a faster and more sustained rate than the others.

Table 2

DISTRIBUTION OF NATIONAL INCOME

(in percentages)

Population	South-East Asia, East Asia	Africa	Latin America
Poorest quintile	8.1, 6.6	6.0	3.3
2nd quintile	12.2, 11.4	8.2	7.2
3rd quintile	16.1, 16.6	11.5	11.9
4th quintile	21.8, 24.9	18.5	19.8
Richest quintile	42.0, 40.4	55.9	57.9
Gini coefficient	0.31, 0.32	0.44	0.49

Quintiles follow increasing order of income.

Source: Weaver, J. and Sprout, R. in Michael Rock, "Twenty-five years of economic development revisited", World Development, vol. 21, No. 11, 1993.

24. Actual data have definitively disproved the idea that inequity is ultimately a function of economic growth. The situation, as described by Joseph Stiglitz, is as follows:

> "There are positive relations between growth and equality. High rates of growth provided resources that could be used to promote equality, just as the high degree of equality helped sustain the high rates of growth. Although this may seem to be little more than common sense, until the experience of East Asia, 'common sense' suggested quite the contrary: growth produced inequality, and inequality was necessary for growth."[19]

25. With the collapse of the "common sense" approach taken by conventional economic theory, the entire field is now open for reinvestigation. There is a

pressing need for this research, in view of the aforementioned high levels of inequality today, which augur severe problems for future growth and in themselves generate widespread social tensions within societies. The many new approaches to research at the international level are systematically beginning to detect various orders of inequality. Together with inequity in incomes, these studies are exploring, among other things, inequality in the possession of assets and inequities in access to credit, both of which are highly significant in economic terms. A recent study by Deininger and Squire found that an inequitable distribution of land - a crucial asset - has a clearly negative effect on subsequent growth. According to this study, only 2 out of 15 countries with Gini coefficients for land distribution greater than 70 had a growth rate that was higher than the low level of 2.5 per cent in the period 1960-1992.[20] Hongyi, Squire and Zou, in another study, show that the initial inequity in the distribution of assets may be maintained indefinitely, generation after generation, with regressive consequences, and that effective policies are required in order to reduce it.[21]

D. Interrelationship between economic development and social development

26. The discrediting of the trickle-down theory, the revaluation of human and social capital and the re-examination of relationships between inequity and growth are prime dimensions in a broader debate involving the global orientation of development models. On the one hand, it is evident that relations between economic and social matters are complex. The trickle-down mechanism assumed that, given enough time, the benefits of growth would reach the poorer sectors. The real process is different. Moreover, some researchers are going even further, suggesting that the entire process should not be thought of in terms of resolving one dimension at the expense of others, but that there is a basic interrelationship between them. Practical experience seems to indicate that social development is vital to the prospects for sustained economic growth. Investments in human and social capital and improvement of equity, besides being ends in themselves from the standpoint of democratic societies, are necessary in order to provide a solid foundation for economic growth. Thus, as James Wolfensohn has suggested, without parallel social development there can be no satisfactory economic development.[22] IDB notes with respect to the case of Latin America that the persistent social gaps in the accumulation of human capital have augmented the large proportion of persons living in poverty and the highly unequal distribution of wealth in the region. These social gaps continue to limit productivity and economic growth in the region and delay the democratization and modernization of States.[23]

27. The current view is that there is a gap to be closed in both directions, without which development itself is highly vulnerable. There is no way to support social development without economic growth, monetary stability and economic and financial equilibria, but in turn these will not be sustainable in the medium and long term if an active social development does not occur. This view opens up the possibility for alternative policies to "conventional common sense", which are now beginning to take shape. Thus, Amartya Sen suggests that, on the one hand, there are approaches that see development as a "cruel" process, based on a morality which suggests "blood, sweat and tears". The rhetoric of

these approaches is that sacrifices are needed to ensure a better future - sacrifices linked, for example, to a low level of welfare, great inequality, authoritarianism, etc.[24] This approach, according to Sen, has been heavily oversold. It does not seem to lead to the results promised by past experience and generates very high levels of tension. It is often presented as the only alternative. The inclusion of the above-mentioned new elements in the debate offers a broad possibility for designing other alternatives. Sen speaks of perspectives which see development as an essentially amicable process centred on helping others and oneself, and with the possibility of moving ahead with a little help from one's friends. This "little help" may come from interdependence in the marketplace (mutual trade benefits) but also from public services which provide people with more training sc that they can help themselves and others. Experience in the past few decades shows that, in response to the traditional separation between economic and social affairs, where, as is increasingly being pointed out, social policies are ultimately dedicated to "picking up the dead and wounded left by economic policy", an integral link could be postulated between the two which would thoroughly exploit their complementarities. The societies that have managed to combine the two types of development are among the most advanced in the world, and show by their example that such integration is feasible. Thus, countries such as Canada, Norway, Sweden, Denmark, the Netherlands, Belgium, Japan, Israel and the countries of South-East Asia are in the forefront with respect to successful macroeconomic results and human development indicators.

28. The new directions in the debate on social development require, in turn, a re-examination of the conventional wisdom of recent decades concerning the role of the State. What new roles are to be expected in view of the profound re-examination currently under way in the framework of global concepts of development?

III. RETHINKING THE ROLE OF THE STATE

29. The usual approach to the issue of how to redesign the State to facilitate and promote social development is to work directly on its organizational structures, enhance the efficiency of its management and incorporate modernizing techniques. Although these aspects are essential, they cannot be addressed until a decision has been reached on what role the State should play in developing countries at the close of this century. The types of technical change and modernization which are considered absolutely necessary cannot be selected in the abstract or on the basis of the supply of technologies on the market. There must be selection criteria guided by a central idea of what, in the light of the specific role to be played by the State, would be the "technological style" most likely to enable the State to play that role most effectively. Purely technocratic discussions on State reform for social development should give way to a broader debate which, beginning with a reassessment of development models, draws conclusions as to what the roles of a "desirable State" should be and, on that basis, develops technical criteria for equipping the State to carry out those roles. The type of methodological approach suggested is the one which we are attempting to put forward in this study.[25]

30. The discussion on the role of the State in the social sphere is part of a larger debate on the overall role of the State. Generally speaking, and as has often been pointed out, the pendulum has swung sharply. A few decades ago, it focused on the idea that it was possible to conceive of a State that would comprehensively plan all aspects of development and implement those plans through its own machinery, carrying out those operations from the centralized level and assuming all types of executory functions. In practice, this view proved to be seriously flawed, both in its conception - which underestimated or marginalized civil society in its many manifestations - and in its implementation, as major inefficiencies in the State machinery became apparent and the centralized management style turned out to be a key source of rigidity and of serious discrepancies with the exigencies of reality.

31. The pendulum then swung in the opposite direction, and the need for "State minimalism" was postulated. It was asserted that the State's functions should be kept to an absolute minimum and that development should be left to the market and the "invisible hand". The State was perceived as an obstacle to the dynamic that was to be created. Much was made of the supposed antagonism between State and market. An active process of demolishing the State was pursued in developing countries. For a long time, efforts focused on the issue of size, as continual and often not very selective cuts were made to reduce it. Many of the State's functions were abolished. In several cases, attempts were made to privatize and to eliminate functions as quickly as possible, even though it was acknowledged that the operations concerned could have been carried out more efficiently for the country's sake and that the public regulatory capacities which supposedly would be needed for the next phase were very weak or nearly non-existent. Moreover, like the first approach, this approach implicitly underestimates the productive and contributory capacities of other expressions of civil society which are neither the State nor the market, such as the very broad spectrum of structures created by the community to carry out essential functions.

32. History has shown that neither extreme led to the desired solutions. Rudiger Dornbusch notes, with reference to the American experience, that the United States is a step ahead, having seen that excessive competition, heedless deregulation and a lack of State intervention have carried things too far. As the pendulum swings the other way, the re-emergence of the State can already be predicted. In 10 years' time, the United States will be able to look back on this as a period of reconstruction centred on a correct conception of the State, on the right kind of cooperation among the Government, the labour force and business, and on the need for the Government to play a crucial role in seeking solutions to the problems of coordinating and exploiting external factors.[25]

33. The rethinking of this whole issue is based on the clash between theoretical models and reality. The facts have seriously challenged widely held assumptions. For example, it is said that confining the issue to a discussion on the size of the State and believing that the reduction of the State will automatically provide solutions is an illusion. The data clearly show that, if the size of the State is measured, inter alia, in terms of civil servants per 100 citizens served and percentage of public expenditure in relation to gross national product (GNP), the relative size of the State in many developing countries is considerably smaller than in most developed economies. The central

issue should not be size in the abstract, but what role the State should play in the historical process and how to give it the managerial capacity it needs to play that role efficiently.

34. Reality, in turn, has shown that in the new globalized world, where the multiplication of interrelationships and the profound geopolitical, geoeconomic and technological changes which have occurred in a very short period of time have resulted in a "complexity explosion", the State must carry out functions which were not part of any of its previous roles in history. Globalization, rapid change and complexity have come with a large dose of uncertainty. Edgard Morin warns that "becoming" is not necessarily synonymous with "developing" and that, from now on, the future is uncertain. He underscores the difficulties of predicting the future, asserting that we are in the midst of not only the unknown but the unnamed, and that our understanding of these times is expressed merely in the formless prefix "post" (post-industrial, post-modern, post-structuralist, etc.) or in the negative prefix "anti" (anti-totalitarian). Thus, we have no clear picture of our future or even of our present.[27] The same feeling with respect to a society that is ever more globalized, and therefore more complex and multidimensional, is described by thinkers in the developing world, who compare it to navigating, almost without a compass and with limited and all too often outdated maps, the whirlwind of change brought about by globalization. So many changes and so few maps, they say, are one of the main sources of the uncertainty and anxiety so often seen in today's world.[28] These developments have generated widespread demands for new types of State responses. Michel Crozier notes that we need more public intervention to handle complexity and that, in one way or another, all groups - even groups of businessmen - require intervention.[29] In the developing world, the possibility of promoting and strengthening subregional and regional integration schemes, which can be so useful in the context of globalization, is generating a wave of demands for catalytic and facilitating roles that could be carried out by a State which has gained efficiency in this crucial area.

35. Together with the demands arising from globalization and complexity, there are others which are linked to the development of the State's regulatory capacities. Regulation emerges as a requirement of economic efficiency and as a deeply felt social concern in the face of the enormous price which society as a whole may have to pay if areas critically important to it are left to an "invisible hand". Lester Thurow warns, in this regard, that Adam Smith's idea that the individual search for profit always promotes the economic growth of a nation runs into problems in practice because, very often, Adam Smith's "invisible hand" becomes the hand of a pickpocket. Free and unfettered markets have a habit of discovering highly profitable but unproductive activities, and practical experience shows that maximizing profits does not always mean maximizing output.[30]

36. Other demands on the State have to do with inequity and its costs. Dornbusch notes that the market does not facilitate a socially acceptable distribution of income and that State intervention, therefore, is legitimate when it tries to equalize the distribution of the income generated by the market. In this view, equality of opportunity and, to some extent, of outcome is not only an ethical precept but also an imperative because there is growing evidence that excessive inequality leads to social conflict.[31]

37. The minimalist State, which has little managerial capacity and is nearly absent from these and other key processes of our time, is very unlikely to be able to help society cope with them adequately. When tested against reality, the underlying idea that "the best government is no government" led to the caustic assertion, by a recognized management authority, that this model "represents the great experiment of economists who have never had to manage anything".[11]

38. In contrast to the pendulum's two extremes, a different conception is currently emerging which indicates, based on recent historical evidence, that the societies which have made the most consistent progress in recent decades are those which have moved beyond the false State-versus-market dichotomy. In its place, they have developed a model of cooperation among the main social actors and have actively integrated into that model the powerful latent forces of civil society, which both extremes tended to marginalize. These models recognize that there is a wide range of organizations between the State and the market, including, inter alia, public interest groups that serve collectively useful purposes but are not part of either the State or the market; the new generation of business cooperatives that are widespread in many developed countries; non-governmental organizations; religious-based voluntary social organizations, which have grown significantly; neighbourhood organizations; environmental groups; volunteerism; and a multitude of other groupings of civil society. The aim, in the new conception, is to add the potential of the market and the multiple contributions which civil society can make to the key roles which the State can play for society, inter alia, to meet the demands noted earlier. From this standpoint, it is essential to rebuild a State which can meet new demands, work in harmony with the forces of private enterprise to achieve optimum results for the country, and promote and facilitate the development of an increasingly close-knit, strong and active civil society.

39. There is a need to rebuild the State with the aim of creating what could be called "smart government"; in other words, government that focuses on its strategic roles in society, with an institutional design and a development of managerial capacities that enable it to play them in a highly effective manner. A wealth of evidence shows that one of the key roles of "smart government" will be in the field of social development. As noted earlier, new views of development, in which the State has crucial roles to play, have emerged in response to the large-scale problems outlined in the first part of this study and the failure of trickle-down models to solve them.

40. In the trickle-down model, the view that growth would solve the problems of poverty by itself led to a minimalist and welfare-oriented conception of the State's role in the social sphere. According to that view, the State should confine itself to mitigating the temporary maladjustments that would occur as the trickle-down effect began to work. Its role should be to carry out only time-bound, targeted programmes to attenuate impacts. Limited resources should be allocated to its social activities, since such resources were being siphoned off from the central policy of growth and trickle-down that would generate the real solutions. These guidelines resulted in a strong movement towards "disarming" the State in the social field by dismantling services, causing a de facto brain drain from the public sector to the private sector and creating a great deal of uncertainty for agencies operating in the social sector by making

them increasingly dependent on external decisions taken with little input from them. The new directions of the debate show that this type of forced, narrow restructuring of the State in the social sphere actually aggravated the problems. Investment in human capital and social capital declined, the already high levels of inequity increased and the possibility of integrating economic and social policies became even more remote. The new orientations of the social development debate suggest a very different role for the State.

41. To build human capital, a society needs a systematic, long-term policy to that effect, in which the State plays a key role. To develop social capital, the State must protect it and actively promote synergies. Improvement of equity calls for active State efforts in that direction. A World Bank study emphasizes that State actions which result in a more equitable distribution of wealth could well become an integral part of a successful economic strategy.[33] The interrelationship established between the economic and social spheres in a development model that mobilizes the complementarities of both requires the State to play a coordinating and synergetic role. Job creation and suitable income policies must be at the heart of this interrelationship. A fundamental aspect of the new role is to enlist allies in the effort to tackle social problems. The State must generate initiatives that promote active participation in this effort by basic social actors, private enterprise, trade unions, universities and civil society in all its manifestations.

42. Smart government in the social sphere is not a minimalist or absent Government that carries out short-term welfare-based actions, but rather one with a State policy (as opposed to a party policy) on education, health, nutrition and culture which is oriented towards overcoming gross inequities and promoting cooperation between the economic and social fields, while enhancing the contribution of civil society through an ongoing synergetic role. This time, it is not a question of postulating yet another theoretical model. Rather, this type of thinking about the State is emerging forcefully from the historical experience of the past few decades, which shows that countries where the State has taken on roles of this type have achieved very significant results. Amartya Sen describes the recent world historical context by stressing that many Western European countries have managed to ensure widespread social security coverage, with the provision of public health care and education in ways hitherto unheard of anywhere in the world; Japan and East Asia have seen a high level of government leadership in the transformation of both their economies and their societies; the role of public education and health care has been the linchpin of efforts towards social and economic change throughout the world (and quite spectacularly in East and South-East Asia); and pragmatic policy-making has drawn inspiration from both the market and the State, and even from institutions which belong to neither category, such as community organizations.[34]

43. Nancy Birdsall emphasizes the role played by the Japanese Government in promoting small- and medium-scale enterprise, in the context of a "bottom-up" growth strategy to generate jobs. She notes that Japan's Ministry of International Trade and Industry considered the lack of modernization of small business as a potential stumbling block to growth, and that the Japanese Government's support for small businesses was one of the most lasting and constant aspects of industrial policy.[35]

44. In democratic Chile, the Government-elect totally replaced the social strategy of the previous administration. Although the latter had scored economic successes, the social situation had palpably worsened, as the estimated proportion of families living below the poverty line rose from 20 to 40 per cent of the population. The democratic Government gave high priority to social issues and launched a proactive social policy based on four guiding principles: equity, solidarity, integration and social participation. It cooperated extensively with the private sector to improve social conditions and strongly encouraged civil society to act. The results of this effort, which has sought to build an ongoing interrelationship between social and economic issues, have been impressive, and progress in both areas has been mutually strengthened.

45. In these and other cases, a State which is active in the social field, aware of the impact of globalization and the market on social problems, aggressive in developing human capital and social capital, involved in forging continual strategic alliances among the various social actors to promote poverty reduction, and placed fully at the service of society is emerging as a key historical tool for societies.

46. Some of the basic risks entailed in insisting on ideas such as State minimalism or in allowing the State to be guided by the interests of internal bureaucracies are vividly demonstrated by Paul Streeten. He suggests that the most serious problems arise not from market failure but from market success, and not from the failure of certain government bureaucracies but from the opposite. He notes that "if the signals propagated by the market are based on a very unequal distribution of land, other assets, and income, it is market success in responding to these signals that causes the trouble". He notes further that "Amartya Sen has analyzed famines and shown that often total food supply was adequate, but that the purchasing power ... of a particular group of poor people had declined. In those conditions the market is all too successful in its signals, incentives and allocations, while people starve". Similarly, he indicates that it is government success in pursuing the self-interested objectives of its officials that produces the destructive results which have been widely deplored.[36]

47. In view of what have been described as desirable roles, how can the State be equipped with the institutional and managerial capacity to play them? What would be the profile of "smart government" in the social field?

IV. COURSES OF ACTION FOR REDESIGNING THE STATE IN THE SOCIAL SPHERE

48. In the developing world, major State reforms have been carried out in the social sphere in the context of macroeconomic adjustment processes. The basic profile of these reforms has been described by Fernando Zumbado and the characteristics can be applied to many countries: up to now, social reform has been a product of the exigencies of stabilization programmes and structural adjustment. In this respect, unfortunately, the reduction of public social spending and the dismantling of inefficient services have played a decisive role in the growth of poverty. It has taken a long time to produce alternative, more effective programmes.[37]

49. From these reforms a post-adjustment State has emerged, which seems to have serious institutional and managerial limitations and weaknesses that hamper it in performing roles such as those outlined in the previous section. The State needs to be reconstructed in the social sphere so that the roles in question can be performed effectively. This reconstruction cannot be backward-looking. Such a course would not be advisable, considering the major operational shortcomings, rigidities and incapacities of State social structures in previous decades. However, mere cuts are not the reform which is required either. Zumbado's call is fully justified: alternative, more effective, programmes are needed.

50. The rebuilding of State management capacity for active, equitable and sustained social development must be carried out in a forward-looking manner. The State must be connected in the social sphere with the new technological frontiers in management and institutional development. In recent decades, there have been fundamental changes in the basic ideas as to how to achieve greater organizational efficiency. At the global level, a new managerial paradigm is emerging with analytical models, hypotheses and technical proposals which are very different from those which predominated for much of this century.[14] A transition from administration to management is under way. The most efficient organizations of our time have generated many elements of this emerging paradigm in their practice, and they are operating increasingly on its basis. It is an important source of reference on how to manage organizations in the year 2000, which may be of great value for the reform of the State in the social sphere. The challenge is how to accommodate the special problems and characteristics of State social sectors in the latest developments in organizational management at the global level. This process does not consist of copying management methods which are in vogue; the challenge is much broader and more complex. It is a matter of seeing whether it is possible to re-examine social management problems on the basis of recent innovations in the understanding of organizational behaviour, while fully respecting their unique and specific characteristics. This re-examination would be the starting point for designing, on its basis, appropriate technical solutions for the State in the social sphere. What is being proposed then is not a process of mechanical appropriation of fashionable managerial solutions, but a vast research and development effort to generate organizational innovation in the social areas.

51. The forward-looking reconstruction of the State in the social sphere therefore entails tackling basic questions such as the following:

(a) What are the truly strategic problems that hinder efficiency? The traditional approach stressed problems of an essentially formal nature connected with organizational charts, procedures, operating manuals, norms and circuits. In the latest management theory, it is felt that this area should be improved, but that the effects of these improvements on final organizational output are very limited. Final output depends on other much more strategic aspects.

(b) How can these problems be tackled in the light of advances in management science while taking into account the very specific characteristics of the management of social programmes?

(c) How can solutions be found that will ultimately ensure that, in the developing countries, the State effectively fulfils the roles assigned to it in

the social sphere, including a drastic improvement in education and health care, the development of social capital, the achievement of greater equity, the optimum use of scarce resources, the production of sustainable solutions, the active promotion of participation by civil society in all its manifestations in social undertakings and the development of the internal capacities of disadvantaged communities?

52. Starting from these conceptual foundations, some courses of action will now be suggested which are considered crucial for redesigning the State in the social sphere. They should be regarded as courses of action whereby gradual changes would be made with a view to achieving the goals pursued. The approach suggested basically constitutes a selective and gradual strategy for change.

A. Reorganization of social policy

53. In the State structures of the developing world, social policy has operated as an area which lacks autonomy in relation to variables which are critical to the achievement of its objectives. Aspects essential to its proper operation have been determined from the outside. Normally, the economic policy areas of States take substantive decisions on issues of great social impact and simply communicate them to the social areas. The latter have very limited organizational participation in the relevant decision-making processes. Social operators have very little involvement in crucial decisions on issues such as credit policy, negotiation of the external debt, tariff policies and fiscal policy which will have a far-reaching impact in the social sphere. Furthermore, the information used in the respective decision-making processes is almost entirely generated by the economic areas; very few information inputs provided by the social areas are used. The organizational position of the social areas in the government power structure also shows marked weaknesses. Regardless of formal titles, their frequency of access to the head of State and their involvement in critical decision-making spheres are considerably more limited than those of the economic and political areas.

54. Under these circumstances, social policy is carried out in a context of subordination and isolation. Control of the level of uncertainty, a key factor of organizational power, is very low. The basic parameters of social policy can easily be manipulated from outside, leaving no place for carefully thought-out schemes.

55. This structural and organizational weakness of the social policy area is consistent with a vision of development in which social development is perceived as a "residual" by-product of other policies. If this vision is thoroughly revised and it is recognized, as mentioned, that the levers of development are many, that there are social dimensions that are crucial if development is to be sustainable and that the "residue" can obstruct the entire process, then it becomes apparent that there is a strong need to restructure the traditional organizational pattern. As Enrique Iglesias rightly observes, the State is the main agent responsible for ensuring the great compromise between economic and social policy.[39] Ensuring such a compromise means redefining organizational responsibilities in such a way as to encourage it. This is a highly complex issue. It cannot be resolved by establishing sporadic coordination mechanisms,

such as steering committees in which the respective senior ministers meet every so often. That is a useful step, but it represents a primary level of coordination. In order to move towards a joint formulation of economic and social policies, much more sophisticated levels are required. Coordination must encompass the various stages of the formulation of public policies. Among other things, it means creating databases on social development, far bigger and better than those currently in existence, which can be a crucial frame of reference in the design of policies. It means giving the social areas direct access to the setting of agendas for discussion. It means setting up organizational mechanisms to enable the joint formulation of decisions at crucial levels, so that, together with economic variables, social variables are incorporated fully into frameworks for decision-making. It means setting up monitoring systems in real time which provide ongoing information on the social impact of economic policies and feedback on the implementation of joint designs. It is necessary to establish an institutional framework that facilitates increasing levels of coordination, in line with what, in some countries that are more advanced in this area, is called generating a "social economy", that is to say, integrated, and not merely coordinated, economic and social policy designs. There are various experiences along these lines which indicate the feasibility of such a project. For example, the democratic Government of Chile has developed an active, ongoing practice of close coordination between economic and social policies. In Israel, a system for monitoring the social situation was developed which generates data that are used jointly by decision makers at the economic, social and parliamentary levels.

56. In addition to tighter coordination, what is needed is a reclassification of the social areas in terms of their importance and hence their access to the basic centres of power.

B. Need for a radical improvement in intragovernmental coordination in the social sphere

57. The coordination problems affecting the social areas of central governments do not arise solely at the external level; in the developing world, such agencies tend to have very low levels of internal coordination. The ministries in charge of such social policies as education, health, family welfare, housing, social development, and so on, tend to act in isolation and in a highly uncoordinated manner. For their part, the various public agencies operating in the social sphere have weak real links to the relevant ministries and limited relationships with one another. Social investment funds, a significant institutional effort of recent decades, have received only limited acceptance from the government social area and operate with this severe restriction. In fact, not only are there huge gaps in coordination, but also frequent sharp conflicts over jurisdiction, resources and programmes.

58. All of this has an important impact on the final outcome, since social policy is, by its very nature, an area in which no institutional agent can achieve fundamental goals on its own. Thus, the goals to be achieved with regard to educational deficiencies require firm support from the health care and nutrition systems. Progress in health care requires active cooperation with the educational system. The transformation of urban areas with marginal dwellings

into stable and productive settlements requires the combined efforts of various social agencies. Optimum results in the social sphere can be obtained only when there is operational integration of the various areas.

59. Behind the serious difficulties of inter-agency coordination lie various problems which should be brought into focus. Some of these are of a conceptual nature. Many government bureaucracies have developed on the basis of markedly sectoral approaches. The organizational design has tended to create a strict separation among sectors, to establish rigid boundaries and totally distinct responsibilities, and to institutionalize a highly formalized division of labour. The realities of programmes to alleviate urban poverty or promote rural development require a different kind of organizational design which facilitates overlapping approaches, teamwork in the field and joint optimization of scarce available resources. Instead of continuing to sectoralize the social policy area, what is needed is to "inter-institutionalize" it, in other words, to increase the real links among the various agents involved.

60. Other problems are very concrete: conflicts of interest, power struggles, territorial disputes. Such problems cannot be solved through traditional approaches which set up formal coordinating structures. These structures establish on paper various kinds of units in which coordination is supposed to take place, but they are usually of limited effectiveness. The serious problems affecting the functioning of social policy steering committees are an illustration of this. These committees bring together the senior ministers in charge of social policies and the heads of government social agencies. In theory, they are a useful tool; in reality, however, their productivity is generally low. Their agendas tend to exclude controversial issues and to concentrate on minor aspects of administrative coordination. The technical arrangements for following up the decisions adopted are limited. Meetings are not supported by systematic technical preparation in advance. The formal approach should be replaced by a substantive approach. Participants should begin by recognizing that there are real underlying conflicts and attempt to address them. A good many of these conflicts could probably be resolved if the parties engaged in organic negotiating processes using advanced technical models. In the first place, negotiations would enable them to identify points of agreement, recognize the benefits to all of carrying out joint efforts, and design common programmes on that basis. Current experience in this area shows that ministries and agencies can easily derive benefits from joint work in such areas as, for example, the production of high-quality social data for shared use, the pooled training of human resources skilled in critical areas, and a common position in negotiations on relevant issues with the economic agencies. While such an approach would not resolve all conflicts, it would reduce and limit them. In addition, organizational mechanisms should be set up to facilitate effective coordination. The meetings of social policy steering committees should be preceded by a consultation process broad enough to enable representative agendas to be drawn up. Likewise, systems should be put in place for monitoring the results of the implementation of the decisions adopted, thereby providing feedback for the adoption of decisions by the steering committees.

61. All these efforts must be made in the context of an in-depth conceptual discussion which will heighten awareness of the need to abandon sectoral

approaches, given that the very nature of social problems calls for a combined approach.

C. Decentralization as an opportunity

62. One of the main opportunities for making positive changes in the State social sphere in developing countries is provided by the decentralization of social services to regions and municipalities. Such decentralization offers numerous advantages. From the standpoint of effectiveness, social programmes can be matched much more closely to the real needs of the target population. From a strictly managerial standpoint, decentralization will heighten efficiency by offering greater opportunities for a dynamic, flexible and rapid response. With regard to the medium- and long-term sustainability of programmes, decentralization encourages recipient populations to articulate their needs, and this will help to make efforts self-sustaining. Lastly, decentralization contributes to the process of putting in place integrated economic and social policies at the regional level.

63. Many countries are implementing decentralization processes in the social sphere which are clearly forward-looking. Efforts are being made to decentralize areas such as primary and secondary education, primary health care and hospital services, housing, environmental sanitation, water pipelines, sewers, drainage and solid waste disposal systems, nutrition, social security, transportation and culture, among others. However, close attention must be paid to past experience in order to be aware of the difficulties and risks that may arise and to devise strategies for tackling and resolving them.

64. Other problems include the degree of institutional clarity of the decentralization process. In some cases, the respective roles of the central Government, regions and municipalities following decentralization have not been precisely defined, leaving considerable grey areas. This creates an opening for constant friction and clashes. Funding is a critical aspect. Unless the decentralization of services is accompanied by mechanisms enabling the regional and municipal bodies to which they are transferred to raise or obtain the necessary resources, the process may become regressive. As Karin Stahl has said, implementing a decentralization policy without ensuring that municipalities have revenue and without equalizing the financial situation of rich and poor regions can, moreover, exacerbate regional inequalities and therefore social inequalities, further undermining the State social services system, especially in poorer municipalities.[40] Another important aspect is the institutional and managerial capacity of the bodies to which services are decentralized. If their capacities are weak, as might be expected at the outset, and no sustained effort is made to strengthen them, services will be seriously threatened. Among other things, many municipalities in developing countries lack the full-fledged career civil service that is a key to efficient management. For instance, research in Colombia, where there has been considerable decentralization, revealed that 85.5 per cent of municipalities, covering 43.5 per cent of the population, did not have the capacity to undertake the tasks assigned to them.[41] A study covering 16 Latin American countries sought to measure municipalities' management capacities by the following indicators: existence of units to take over the service, skilled human

resources, mastery of management technology, ability to develop projects, availability of financial resources, presence of a sound organizational structure and existence of a municipal career structure in the social services area. The study found that, in a range of 5 to 1 in descending order, management capacity averaged 1.[43] This kind of situation can create a vicious circle. Formally, the central Government delegates powers to municipalities, but it has misgivings about their management capacity. Instead of trying to build that capacity, it rations the practical delegation of powers, with the result that grey areas arise which seriously complicate the provision of services. The resulting difficulties then compound the Government's original misgivings.

65. Basing herself on field studies, Dagmar Raczynski warns of another problem. She writes that her analysis of Argentina and, in part, Brazil suggests that the pressures and practices of special interest groups are often far more intense at the regional, provincial and local levels than at the national level.[44] This warning may extend to broader areas. Elite power groups in regions and municipalities may seek to steer decentralized resources towards their economic or power interests. At these levels the process can be significantly distorted.

66. These and other aspects do not invalidate the promises held out by decentralization, which may be as specific as those identified by IDB in its 1996 report: there is growing evidence that results can be improved by giving schoolteachers and headteachers greater autonomy within their schools, accompanied by appropriate mechanisms for ensuring accountability. Giving parents and students greater choice and a greater say in local schools' decision-making can increase the system's ability to meet educational needs. Organizational changes can in fact be an effective catalyst for increasing accountability, improving resource allocation, stimulating innovation and generating the resources needed to enhance equity and quality.[45]

67. Seizing the opportunities offered by decentralization means explicitly identifying and confronting risks such as those mentioned. It means avoiding grey areas, creating conditions for the effective funding of services by regions and municipalities, greatly strengthening the management capacities of regions and municipalities and making sure that they are not co-opted by elite groups. Raczynski recommends that since the process is a difficult one, it is essential that it be conducted by a strong central Government which provides impetus and guidance and, at the same time, that it preserve the benefits of economies of scale and avoid increasing the already enormous inequalities that exist among the different part of any given country.[46]

D. Network-building

68. The new outlook for action in the social development field demands that all those working in this field who have a contribution to make pool their efforts. At present, there is very little coordination among social development agents and they fail to take advantage of the complementarities that joint action might offer. The State must take the lead in encouraging the building of networks that bring together public agencies in the social field, regions and municipalities, NGOs, private business foundations, trade union movements,

grass-roots religious organizations, universities, neighbourhood associations, other members of civil society and organizations representing poor communities. Such networks would be mutually supporting and draw on the best that each agent has to offer, while overcoming any weaknesses. As James Midgley has said, the respective roles of the State, the community and volunteer organizations must be taken into account and each one's strong and weak points analysed. Strategies for harmonizing the contributions of the community, the State and NGOs can also be identified."

E. Participation: a master strategy

69. The World Bank recently published The World Bank Participation Source Book, which details the new direction taken by the Bank in supporting participation." The evidence of studies conducted in this area is entirely consistent: anti-poverty and social development projects which take a participatory approach are far more successful than those based on hierarchical structures. Other international organizations are now reaching similar conclusions. IDB has just completed publication of a guide on the subject, in which it sees participation as the key to promoting development and democracy in the world." The benefits of adopting a participatory approach in the planning, management and evaluation of programmes for health, education, housing, rural development, improvement of marginal urban areas, nutrition, etc., are very tangible in management terms. Experience has shown that the involvement of the communities targeted by such programmes makes it possible to determine precisely what their priority needs are, creates a useful information flow which can be a key management tool, promotes a community input of innovative ideas, permits ongoing evaluation of the progress of the programme and is an almost infallible deterrent to potential corruption. One significant aspect is that when a community is consulted, its self-esteem is enhanced and its latent potential begins to be tapped, enabling it to make a fundamental contribution.

70. In addition to these management benefits, community participation can have a very considerable impact on an essential goal of present-day social development: programme sustainability. This is a very pressing issue. Internal evaluators have reportedly classified over half of the World Bank's projects as being of dubious sustainability, meaning that, once they are completed, a process that usually takes around five or six years, they may cease to provide significant benefits for the recipient countries." Generating medium- and long-term sustainability is a critical test of the real success of social management. As the reported evaluation indicates, without such sustainability projects fail to achieve lasting goals and are therefore inefficient. Participation is essential for building sustainability, and full community involvement will facilitate and promote the building of the community capacities that are essential for sustainability. Moreover, broad community participation makes it possible to tackle some of the strategic problems mentioned above in analysing decentralization. Decentralization to municipalities with active community involvement will help to ensure that resources really go to community priorities and prevent them from being taken over by local elites.

71. Many recent participatory experiences demonstrate the practical functioning of these clear advantages of participatory models. A broad sample of successful participatory experiences are described in the World Bank and IDB publications mentioned above and in the vast documentation on the subject produced by the United Nations system. The Grameen Bank in Asia, for instance, a popular credit bank which is 75-per-cent owned by its members and operates on a basis of broad participation, broke new ground in this field. It gave poor peasants vital access to credit and its membership grew in 10 years from 15,000 to 250,000. Villa El Salvador in Peru, a shanty town housing 250,000 poor people who started out from a situation of extreme poverty, developed a self-managing participatory approach based on 2,000 organizational units actively involving all its residents. In 20 years, they have erected 50,000 homes and an extensive network of schools and health centres, their literacy and health levels are far higher than the national average, they produce their own food and they have developed an industrial park for small businesses. The project has received a UNESCO prize, was awarded the Prince of Asturias prize by the King of Spain and has received many other international awards. In the municipal sphere, the city of Porto Alegre in Brazil has been developing a broad participatory system since 1989 to give the population a say in decisions on communal investments. In 1995, 100,000 people out of a total population of 1.3 million participated actively in the entire process. The allocation and management of resources are considered to have improved markedly as a result of this process, demonstrating the possibilities offered by decentralized municipal action combined with community participation. In all these and other similar cases, there has been a real transfer of decision-making power to the community. This sets them apart from the frequent "simulations" of participation, in which the community is promised an opportunity to participate but this is limited to statements of intent and secondary aspects, giving rise to considerable frustration.[50]

F. Improving the quality of services

72. There is general agreement that the State must drastically improve the quality of its services in general and of social services in particular. However, that line of reasoning must be carried further. What is quality in public services? Christopher Pollitt puts forward one point for consideration. Practical observation indicates that the reply to this question will vary with the actor. Perceptions of what constitutes an improvement in quality vary according to whether we are asking politicians, public administrators, professionals working in these services or users. The following is a realistic description of the situation: first, there are the politicians in power who are anxious to limit spending while assuring the public that the standard of basic public services is not being adversely affected. Next, there are the managers and senior administrators, who are obliged to follow the dictates of their political masters and rightly anxious to preserve and elevate their own institutions. They frequently clash with our third group, the professionals of the public service sector, who frequently view senior management with suspicion. Their reaction is predictable: they try to preserve their sphere of autonomy and protect their students, patients and clients. These consumers of services make up our fourth group, although it is a group that has yet to play an active role in the design of quality initiatives. Quality is something that has been done to them, rather than defined by them.[51]

73. Initiatives to improve the quality of services and introduce total quality elements should be clearly targeted to the needs of the last group, which should be allowed to give their own definition of quality. When this happens in the developing world, the beneficiaries frequently indicate priorities quite different from those established from the outside. They raise very specific issues, for example: information on programmes does not reach them, forms from public agencies to be filled out should be written in understandable language, and the respective offices should be open on days and at times compatible with their working hours.

74. Quality improvement must start with, and be carried out with, recipients if it is to result in real progress.

G. Towards an adaptive management style

75. What is the most appropriate management style for the efficient delivery of social programmes? The answer must be sought first in the requirements of the processes for implementing these programmes. Such processes are extremely volatile. When programmes targeting vast social groups, for example, programmes to extend primary health care in rural areas, lower the school drop-out rate in poor urban neighbourhoods or deliver food together with nutrition education, are implemented, highly complex and variable dynamics are created. Various interest groups, including economic interests and lobbies, gravitate around programmes and might attempt to divert them to their own ends. Different organizational agents, with variable interrelationships, are involved - ministries, regions, municipalities, NGOs and groups of civil society. Recipient communities may react in very different ways and their reaction may change over the course of the programme's execution. In the actual implementation of the programme, unforeseen opportunities and risks may arise. Frequently, decisions external to the programme and even to the entire social sector, such as budget cuts, are taken. Programme execution as a whole tends to display turbulent characteristics. Dennis Rondinelli concludes, in his analysis of the causes of the failure of various development projects support by international agencies, that irrespective of how the project was planned or how the technical analysis was conducted, rarely is the observation made that the problems encountered could not have been predicted.[52]

76. Thus, it is not a matter of adjusting earlier designs; the issue is more complicated than that. A dynamic is unleashed which in various respects cannot be predicted in advance. This dynamic cannot be controlled by applying traditional bureaucratic management styles, which use plans, routines and standards to regulate the operations to be performed. Such plans assume highly predictable situations in which projections from past situations can be an efficient guide. In the field of social management, the situation is volatile and the past is an unreliable reference because basic conditions are changing constantly. We need to move towards a style of adaptive management that is in close touch with reality and which reacts to change as it goes along. This does not mean doing away with planning, but simply changing the timing. Planning and management should be as close as possible to each other: planning, execution, feedback and redesign should be virtually one operation. Advanced management currently has different technical tools to support the management style that is

required. Among these, systems for the real-time monitoring of the progress and impact of programmes may be helpful; they involve changing from a conception of monitoring and evaluation as instruments of control to viewing them as management tools.[53]

H. Renewal of organizational structures

77. Organizational structures in the public social sector tend to follow the customary vertical, pyramidal and hierarchical models with numerous grade levels. Such models are functionally inappropriate to the requirements arising from decentralization processes, from the interest in starting up networks and promoting participation and from the need to develop adaptive management styles. Among other problems, they tend to close in on themselves, turn routines into targets, develop serious resistance to the participation of agents external to the structure, such as other possible partners and the recipient communities themselves, and can be extremely rigid in reacting to change. Progress must be made towards more open, flexible and participatory structures. The design of organizational structures is not an end in itself, but a means to facilitating the achievement of objectives. In the area of social management, the design should encourage such aspects as an active relationship with what is happening on the ground. Mintzberg advances a significant argument on this aspect.[54] We must look at organizations as circles rather than pyramids. Normally, there are those who work at the perimeter, on the edges of the circle, in active contact with recipients and with reality. They have feedback on what is happening, but because they work in very strictly defined areas, their approach is compartmentalized. In the centre of the circle we have the senior executive level, which knows where the organization is trying to go but may have little contact with reality. It tends to live in an ivory tower. In terms of social programmes, a number of suggestions can be gleaned. Such programmes must maximize the interaction with reality. A closer relationship between the perimeter and the senior executive level is essential if reality is to filter through to the latter. Likewise, an attempt must be made to apply the modern strategy of a shared vision for the organization, which can generally help to involve the perimeter fully in the operation but will also enable it to make its practical information-gathering and analysis more productive.

78. In various contexts, changes in the State social sector are taking the directions indicated. In Canada, one of the countries which have taken the lead in this area, the administration and finance division of the Ontario Ministry of Communities and Social Services announced a new organizational structure based on a trial administrative method that would reduce hierarchical levels and eliminate structural barriers. According to the division, this project would include a change in the prevailing organizational culture and values (from territorialism, a mob mentality and fear, to teamwork, trust and delegation of responsibility).[55]

I. Looking at the specifics of social management

79. What should the basic strategic orientation be for the essential institutional and managerial reforms to be undertaken in the State social

sector? The application of traditional public administration approaches has revealed serious shortcomings and conflicts with the demands of reality. However, there also does not seem to be any empirical evidence to support the use of business-style approaches in this field, since their goals and usual characteristics differ markedly from the objectives and typical functioning of social programmes. Social programmes have development targets whose effects are often seen basically in the medium and long term, as happens in education. Their targets interact with those of other programmes. In some cases, their goals cannot be measured by the means normally used in business management because they are qualitative. Moreover, in the social programmes of the developing world there are overall goals under which the specific goals of a programme in a given area are subsumed. It is hoped that all programmes will help to enhance equity, overcome gender discrimination, promote environmental preservation and achieve sustainable development. The technical operation of implementing social programmes is also very different from that of business organizations. As we have seen, it is characterized by multiple institutional actors, the need to coordinate them, networks, turbulence, the essential need for participation because of its wide-ranging positive effects, the need to respect local cultures, and the impact of political, social, demographic and other factors. The list of management dilemmas that arise in operations of this kind is unique and quite different from that arising in business.

80. An approach must be developed in this field that focuses on the specific problems of social institutions and social management and seeks appropriate technical solutions to them. A social management approach is required. Its inputs of support would include elements of other approaches, but the strategic approach must be different and be efficient in terms of goals and overall goals, such as those listed and of the particular type of technical operation that characterizes social programmes and policies. This approach is emerging in specific experiences of successful institutional adjustments and programmes in different countries. The type of institutions and management discerned in what are internationally viewed as examples of managerial excellence, such as the Grameen Bank in Asia, the EDUCO schools in El Salvador or the neighbourhood consumer fairs in Venezuela, arise out of this differentiated approach.[56] The observation of this technical dimension of social management is currently stimulating efforts to train social managers in this area in various countries of the developing world.[57]

81. The need to respect specific characteristics and not to transfer the business approach mechanically to other fields is not exclusive to the social sector. Paul Krugman warns of the danger of such transfers to the economic field in a recent article, "A country is not a company".[58] He calls attention to what he considers a dangerous tendency to seek to apply a business approach to countries. He says that what people learn from running a business does not help them to formulate economic policy. A country is not a major corporation. The mental processes that make a great business leader are not generally those that make a great economic analyst. He notes that the problems are of a totally

difficulty accepting that they must go back to school before they can make pronouncements in a new field.

82. Just as the macroeconomic sphere demands macroeconomic management, the goals and functioning of social management cannot be equated with business logic. Much more needs to be done to ensure such essential aspects as access, equity, sustainability and efficiency.

V. FINAL NOTE

83. According to Goethe, theories are grey, while the golden tree of life is green. In the developing world of recent decades, a number of theoretical models have indeed succumbed to or been seriously challenged by reality. Approaches based on a mechanistic vision, which puts off solving today's acute social problems to an imaginary future where there will allegedly have been a "trickle-down" of growth, have not been validated by the facts. Instead, they have resulted in a systematic marginalization of social policy and management which has aggravated social problems. Combined with a misperception of inequity as being conducive to growth, a perception totally negated by the case of South-East Asia and other societies and by the marginalization of human and social capital, these approaches have caused the social sphere to be largely abandoned, with many far-reaching consequences. At the macroeconomic level, ignoring the social dimension creates major obstacles to opportunities for sustained growth. Neglect of education, health and nutrition, weakening of the family and increasing personal insecurity are processes which undermine growth, deter investment and impede technological progress and the development of external competitiveness. The case of Latin America is also illustrative of other parts of the developing world. Nancy Birdsall pinpoints the economic significance of such obstacles in the region when she says that it is possible that growth rates in Latin America simply cannot go above 3 or 4 per cent as long as the half of the population which is in the lowest income percentiles is unable to participate and make a contribution.[58] To this observation we might add another, from the World Bank, concerning the high level of unemployment in the region: for Latin America to be able to lower its unemployment rates in the coming years, the region's gross domestic product will have to grow by more than 4 per cent.[59] What we have here is a vicious circle. Reducing the region's critical unemployment level of over 16 per cent will require a growth rate of over 4 per cent, and such growth will happen only if the vast sectors of the population currently below the poverty line are brought into the development process.

84. A deteriorating social situation also has high costs in terms of democratic governance. A broad survey of public opinion in 17 Latin American countries showed that, while the great majority of the population are in favour of the democratic system, only 27 per cent of those surveyed are satisfied with the

85. The assertion of a contradiction between State and market and the consequent calls for a minimalist State are also being seriously challenged by the facts on the ground.

86. The new debate is therefore suggesting that the best results in recent years have been achieved with a broad combination of State, plus market, plus civil society in all its manifestation. An absent or minimal State does not seem to be the answer to social problems or, more generally, to the need to encourage sustained development. The idea of an intelligent, highly efficient State which intervenes at strategic moments is steadily gaining ground. Merilee Grindle says that it has been noted that only States can provide the set of conditions essential to economic development: law, order, effective macroeconomic policies, infrastructure development, investment in human capital and greater equity.[61]

87. One essential field of activity of the intelligent State in the developing world in coming decades will be the vigorous, sustained promotion of active integration of economic and social development, together with a substantial improvement in equity. The State will also have to promote the active involvement of all the basic forces of society in those efforts. To achieve all this, it will have to take on the task of forging strategic alliances among those forces.

88. Performing these new roles efficiently will require radically reforming the State's social structures. Such a reform must not be backward-looking, but neither should it mean simply cutting back on or dismantling those structures. Institutional imagination will be required for rethinking the State in the social field. It is therefore essential to set aside conventional wisdom and the numerous dogmas of theoretical models with no answers that stand in the way of progress towards innovative solutions. This collective task cannot be delayed, for the social opportunity cost is very high. Every moment that passes without sustained policies of education and health investment, without efforts to increase equity and without efficient, high-quality public social services has a drastic regressive impact on the basic living conditions of vast numbers of long-suffering people in the developing world and prolongs their unjustifiable social exclusion.

Notes

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